

# LAURELHURST ASSET MANAGEMENT

## John's Market Outlook – March 23, 2026

Four years ago, my [March 2022 Outlook](#) talked about a new war. Here we are again.

In modern times, wars have been very short and/or in places peripheral to the global economy, so investors learned to buy “*the sound of cannons*”. The Iran war that began February 28 threatens to be not-so-short, in one of the most important places to the world. 20% of global oil and LNG are produced around the Persian Gulf and move through the Straits of Hormuz (SoH) now effectively closed by Iran, as does half of some fertilizers and many other commodities. Israel bombed Iran's South Pars gas fields, Iran stepped up attacks on the Gulf states' oil facilities, and Qatar suffered major damage to its LNG export facility. The global reference oil price (Brent) has jumped from \$70/bbl to \$99; West Texas oil from \$67 to \$88; physical oil in Asia is appx \$157<sup>1</sup>/. LNG in Asia jumped from \$11/mmBTU to \$22; average US pump gas from \$2.96/gal to \$3.92. Prices can go potentially much higher if the war continues and grows.

One can start a war, it takes two to stop, unless one ceases to be. After three weeks the US/Israel have not eliminated the Iranian regime or its nuclear program. Far from ceasing to be, Iran still controls the SoH and is striking Gulf cities and energy facilities. We do not know how soon the war will end or with what damage to the Gulf's oil/gas infrastructure.

High energy prices stress economies and budgets, erode margins, raise inflation, and tax consumers. Beyond energy, the supply of inputs to various industries such as agriculture, plastic, aluminum, and semiconductors is impacted. A short closure of the SoH is manageable; a longer closure or lasting damage to regional energy infrastructure will be very serious.

In December, I was “*entering 2026 more cautious*”. The caution was right for January and February, but not enough for the war. The S&P 500 is now down -3.5% YTD. Investors expect the war to end soon<sup>2</sup>/ with little damage to energy supplies; then the market will recover. If the war lasts longer or does more damage, markets have further to fall.

The situation has thus changed since my last Outlook. With inflation rising again, rate cuts are on hold unless employment growth goes negative<sup>3</sup>/. AI investment remains very strong with weaker players pulling back. Fears of AI's threat to software and employment have grown. More weakness is showing in private credit, private equity, and some consumer lending. The US budget deficit will worsen with military costs and tariff refunds.<sup>4</sup>/

I have been adjusting sector and stock positioning to more defensive, based on these new risks.

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<sup>1</sup> / All prices as of 3/23/2026 – they are changing rapidly.

<sup>2</sup> / Implied by WTI oil futures \$88 for May, \$83 for July.

<sup>3</sup> / A new Federal Reserve chair has been nominated, but when seated Mr. Warsh will have only one vote on the FOMC.

<sup>4</sup> / The Pentagon seeks a \$200BN supplemental for the Iran war and more missiles. The Supreme Court held the US IEEPA tariffs invalid and \$150BN+ of collected tariffs may have to be repaid.

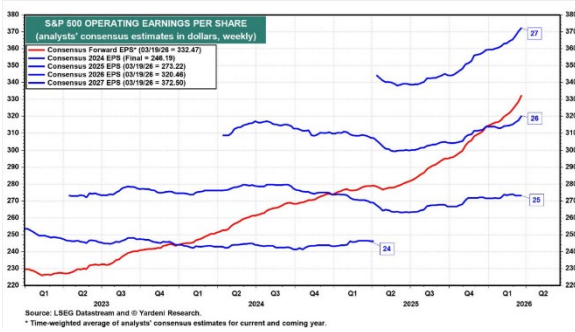
- Rising inflation and rising interest rates implies keeping bond duration very short. No change there. We hold the Vanguard Short-Term Inflation-Protected Securities ETF (VTIP), which should rise if inflation does, and the iShares Floating Rate Bond ETF (FLOT), which should benefit if short rates rise.
- After a huge run into January, gold (GLD) is absorbing profit-taking and pressure from rising US interest rates. Longer term, gold should continue to benefit as other countries diversify from Treasuries, and if market weakness bleeds into financial systems. I modestly reduced gold in some portfolios.
- During the war, ex-US markets pulled back more than US markets. Asia and Europe are at more risk from higher energy prices, while Latin America is a net oil exporter and benefits from higher commodity prices. I reduced ex-US weight by about 5 percentage points in most portfolios.
- The rate at which missiles are being consumed and the challenges of drone defense will drive a major increase in missile and air defense procurement. I bought Kongsberg Gruppe (KOG-OSL, KBGGY), a Norwegian company with a range of missiles and anti-drone systems. Korean defense stocks pulled back with the broader market, and I added more of the KDEF ETF. I expect large multi-year orders for Lockheed (LMT), Raytheon (RTX), and other missile makers this year. The world is becoming a more fractured and dangerous place, benefiting defense names.
- On a positive note, the US freight market, after a three-year post-Covid slump, is seeing a notable *upturn* in demand driven by industrial shippers. Trucker supply is falling as the US seeks to eliminate foreign-born commercial drivers. Trucking rates are rising. Diesel prices are higher but so are fuel surcharges. I added to transportation names such as Landstar (LSTR) and Knight-Swift (KNX). Similarly, broad semiconductor demand is rebounding, and I added to ON Semi (ON) and Microchip (MCHP) on weakness.
- We entered the quarter holding oil and gas names like EQT Corp (EQT), Valero (VLO), Chevron (CVX), Shell (SHEL), Total Energie (TTE), Kinder Morgan (KMI), and Coterra (CTRA), for more datacenter power demand and Venezuelan crude. The Iran war, even if it ends tomorrow, has created long-term tightness in LNG<sup>5</sup>/ and the need to repair Gulf energy facilities and/or build new ones farther from Iran. I added Venture Global (VG), a US LNG exporter, and Baker-Hughes (BKR), an oil/gas equipment company.
- Early in the quarter, software names were hit hard on investor fears of “cheap AI” replacing expensive commercial software. On weakness, I bought SP Global (SPGI), Factset Data Systems (FDS), and SS&C Tech (SSNC); they sell critical software used in professional fields where accuracy is far more important than cost.
- Some major AI datacenter projects slowed as investors remain skeptical about the scale of AI spending. Many AI-related names were weak in January and February, until the war turned eyes elsewhere. I think our exposure to the AI theme is about right and have not adjusted it.
- The US housing market is even weaker now. New home sales fell steeply in January, mortgage rates are rising, and the Federal Reserve will hold off on rate cuts with inflation rising. I reduced our building materials exposure. Higher interest rates are negative for real estate investors, and I reduced REIT names.
- The Supreme Court invalidated the IEEPA tariffs but the US imposed new tariffs, so the benefit to consumer stocks was brief. However, these names have held up fairly well in the current decline and the new tariffs are lower for SE Asia where many goods are sourced. We still hold Columbia (COLM), VF Corp (VFC), and Gap (GAP).
- In recent quarters, I added defensive, dividend-paying stocks such as Dominion Energy (D), Verizon (VZ), and Vale (VALE), and income-focused ETFs such as JPM Equity Premium (JEPI). We still hold these.

I would be happy to go deeper into this outlook and other investment topics than was possible in this brief summary. Please email [johnliu@laurelhurstasset.com](mailto:johnliu@laurelhurstasset.com) or call 510 847 0070. Thank you!

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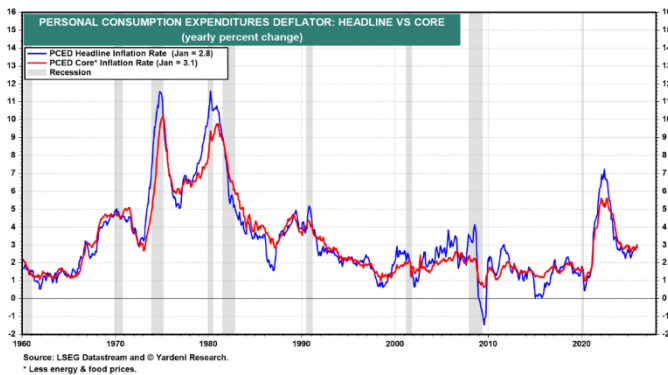
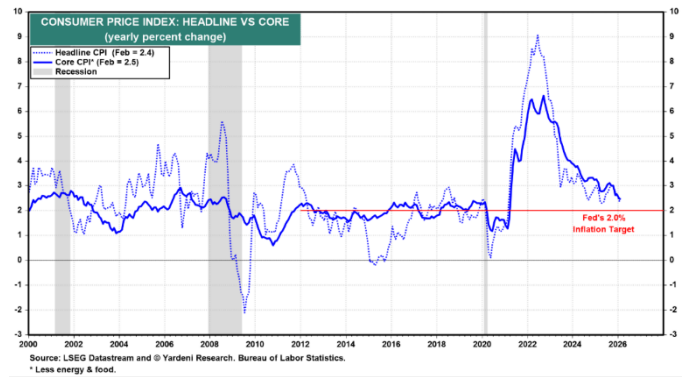
<sup>5</sup> / 17% of Qatar’s LNG export capacity is destroyed and will take years to rebuild. Qatar is the main LNG supplier to Asia.

## APPENDIX TO MARCH 2026 OUTLOOK – SELECTED CHARTS AND TABLES



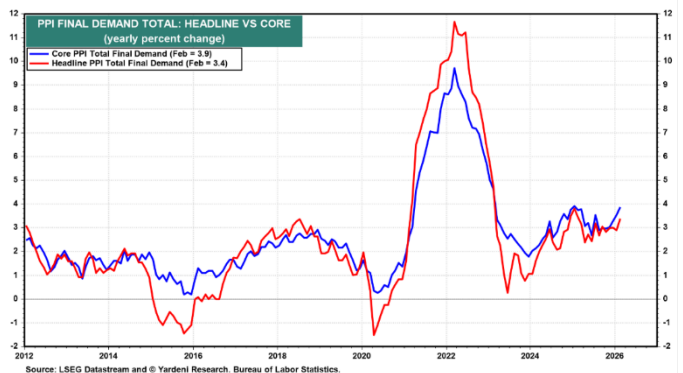
The improvement in current-year and out-year EPS estimates continued in 1Q (chart to left). It is too early to know how the war will affect estimates, if at all.

Consumer Price Inflation (CPI). Headline CPI (solid line) has slowed to 2.5%. Core ex-food/energy CPI is stalled in the 2.5-3.0% range (dotted line). The war will lift energy prices now and may lift food and goods prices later. The understatement of shelter inflation should end soon.<sup>6/</sup>

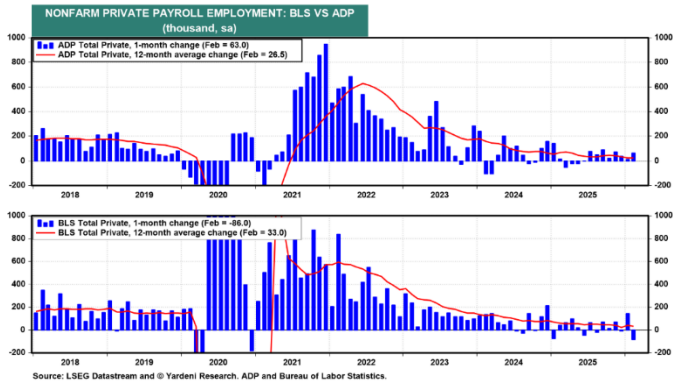


Personal Consumption Expenditures (PCE), the metric targeted by the Federal Reserve, is less affected by shelter inflation and is starting to rise, both core (red line) and headline (blue line).

Finally, Producer Price Index (PPI) is trending steadily higher. Either rising wholesale prices will feed higher consumer price inflation, or companies' margins will come under pressure (assuming no change to tariffs).

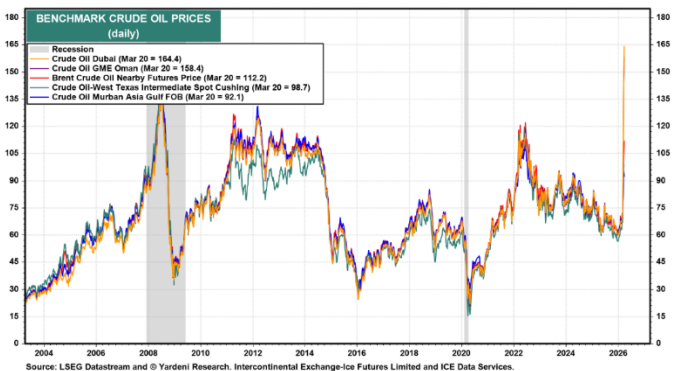
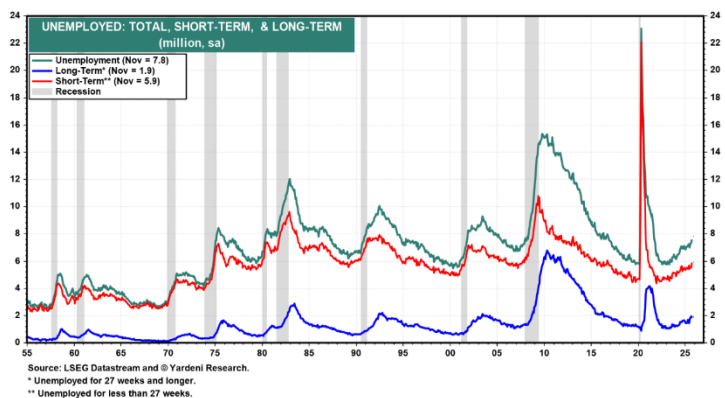
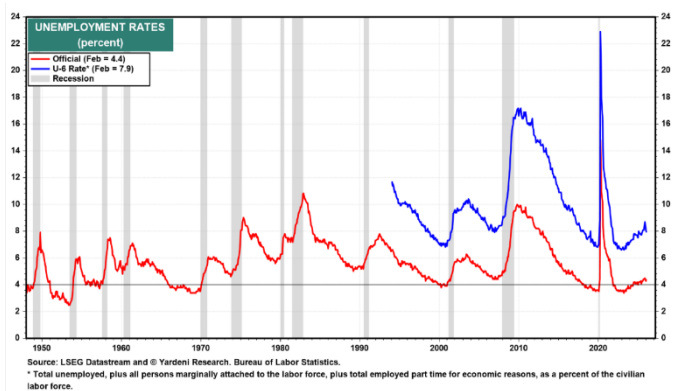


<sup>6/</sup> Due to missing data from the government shutdown in late 2025, the Bureau of Labor Statistics treated October 2025 housing prices as “unchanged” from April 2025 (zero inflation). That will artificially understate CPI through, possibly, April 2026.



Private (ADP) and government (BLS) jobs data still shows job growth weak and choppy.

The unemployment rate, U-6 under-employment rate, and short and long-term unemployment, are still moving up.



This chart shows regional crude oil prices. Oil is globally transportable for a few dollars/bbl, so prices tend to converge. The appx \$40 delta between Dubai/Oman prices and Brent prices will close.

Finally, the S&P 500's valuation (22X forward P/E) remains very high. No change from the discussion in my prior Outlook.



*My opinions and judgment on date written. Not investment recommendations or guarantees.  
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